# CITY OF BURLINGTON, VERMONT
# ELECTRIC DEPARTMENT

Financial Statements and
Required Supplementary Information

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

**CITY OF BURLINGTON, VERMONT**
**ELECTRIC DEPARTMENT**

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# Independent Auditors' Report

The Board of Electric Commissioners
City of Burlington, Vermont:

We have audited the accompanying financial statements of the City of Burlington, Vermont Electric Department (the Department), as of and for the years ended June 30, 2017 and 2016 and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the City of Burlington, Vermont Electric Department, as of June 30, 2017 and 2016 and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

*Emphasis of Matter*

As discussed in note 1, the financial statements referred to above are intended to present the financial position, the changes in financial position, and cash flows that are attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the City of Burlington, Vermont as of June 30, 2017 and 2016, the changes in its financial position, or where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

*Other Matters*

**Required Supplementary Information**

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 3 – 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Burlington, Vermont
October 30, 2017

This section of the City of Burlington, Vermont Electric Department's (the Department) annual financial report presents a discussion and analysis of the Department's financial performance during the fiscal years ended on June 30, 2017 and 2016. Please read it in conjunction with the Department's financial statements, which follow this section.

**Overview of the Financial Statements**

The financial section of this report consists of three parts: management's discussion and analysis (this section), the financial statements, which provide both long-term and short-term information about the Department's overall financial status, and the notes to the financial statements, which explain some of the information in the financial statements and provide more detailed data.

The Department's financial statements are prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental enterprise funds and employ the economic resources measurement focus and the accrual basis of accounting. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of capital assets is recognized in the Statements of Revenues, Expenses, and Changes in Net Position. All resulting assets and liabilities associated with the operations of the Department are included in the Statements of Net Position. The Department follows GAAP for external financial reporting and is subject, as to rates, accounting, and other matters, to the regulatory authority of the State of Vermont Public Utilities Commission (PUC) and the Federal Energy Regulatory Commission (the FERC). In accordance with FASB ASC Topic 980, *Regulated Operations*, the Department records certain assets and liabilities in accordance with the economic effects of the rate making process.

The change in Net Position is one way to measure the Department's financial health or position.

The Statements of Revenues, Expenses, and Changes in Net Position report the operating revenues and expenses and nonoperating revenue and expenses of the Department for the fiscal year, with the difference – the change in Net Position – being combined with any capital grants to determine the net change in position for the fiscal year.

The Statements of Cash Flows report cash and cash equivalent activities for the fiscal year resulting from operating activities, capital and noncapital related financing activities, and investing activities.

**June 30, 2017**

- Operating income was $3,243,545 a decrease of $1,449,380 or 31% below 2016.
- Sales to Customers were $47,529,289 or 0.6% lower than 2016 sales.
- Other Revenues (primarily sales of renewable energy credits) were $12,784,024 or 14% below 2016.
- Total operating expenses were $56,980,006 in 2017, a $832,751 or 1.4% decrease in total operating expenses over 2016.
- Total net position at June 30, 2017 was $64,048,824, which was an increase of $1,103,639 from the June 30, 2016 net position.
- Total capital assets (net of depreciation) were $99,807,006 at June 30, 2017, compared to $99,105,144 at June 30, 2016.


(Continued)

- The McNeil Plant capacity factor for fiscal year 2017 was 61.4% compared to 72.2% in 2016, supplying 134,539 MWH and 158,454 MWH, respectively, of its energy production to the Department.

**June 30, 2016**

- Operating income was $4,692,925 a decrease of $909,438 or 16.2% below 2015.
- Sales to Customers were $47,800,524 or 0.2% lower than 2015 sales.
- Other Revenues (primarily sales of renewable energy credits) were $14,858,224 or 0.25% below 2015.
- Total operating expenses were $57,812,757 in 2016, a $792,805 or 1.4% increase in total operating expenses over 2015.
- Total net position at June 30, 2016 was $62,945,185, which was an increase of $3,507,635 from the June 30, 2015 net position.
- Total capital assets (net of depreciation) were $99,105,144 at June 30, 2016, compared to $98,930,995 at June 30, 2015.
- The McNeil Plant capacity factor for fiscal year 2016 was 72.2% compared to 63.6% in 2015, supplying 158,454 MWH and 139,331 MWH, respectively, of its energy production to the Department.

### Financial Analysis of the Department

*Net Position*

The following summarizes the Department's overall financial position as of June 30, 2017, 2016 and 2015:

| | | 2017 | 2016 | 2015 | Percentage change 2016–2017 | Percentage change 2015–2016 | |
|---|---|---|---|---|---|---|---|
| Current assets – unrestricted | $ | 25,855,237 | 27,251,045 | 26,937,984 | (5.1)% | 1.2 % | (A) |
| Restricted assets | | 6,329,441 | 5,997,340 | 5,928,855 | 5.5 | 1.2 | (B) |
| Capital assets, net | | 99,807,006 | 99,105,144 | 98,930,995 | 0.7 | 0.2 | (C) |
| Other noncurrent assets | | 31,432,206 | 28,758,263 | 29,079,637 | 9.3 | (1.1) | (D) |
| Total assets | $ | 163,423,890 | 161,111,792 | 160,877,471 | 1.4 % | 0.1 % | |
| Deferred outflows | $ | 6,586,297 | 4,172,212 | 1,648,091 | 57.9 % | 153.2 % | |
| Current liabilities | $ | 9,053,459 | 8,320,155 | 10,610,932 | 8.8 | (21.6) | (E) |
| Current liabilities payable from restricted assets | | 606,206 | 630,031 | 650,256 | (3.8) | (3.1) | |
| Other noncurrent liabilities | | 6,423,764 | 6,496,596 | 6,984,213 | (1.1) | (7.0) | (D) |
| Net pension liability | | 16,198,638 | 12,674,005 | 9,427,247 | 27.8 | 34.4 | |
| Long-term debt, net | | 73,679,296 | 74,218,032 | 74,023,607 | (0.7) | 0.3 | (F) |
| Total liabilities | $ | 105,961,363 | 102,338,819 | 101,696,255 | 3.5 % | 0.6 % | |

| | | 2017 | 2016 | 2015 | Percentage change 2016–2017 | Percentage change 2015–2016 |
|---|---|---|---|---|---|---|
| Deferred inflows | $ | — | — | 1,391,757 | — % | (100.00)% |
| Net position: | | | | | | |
| Net invested in capital assets | $ | 40,608,237 | 39,811,834 | 38,240,833 | 2.0 | 4.1 |
| Restricted | | 5,723,235 | 5,367,309 | 5,278,599 | 6.6 | 1.7 |
| Unrestricted | | 17,717,352 | 17,766,042 | 15,918,118 | (0.3) | 11.6 |
| Total net position | $ | 64,048,824 | 62,945,185 | 59,437,550 | 1.8 % | 5.9 % (G) |

(A) Current assets (unrestricted) at June 30, 2017, decreased $1,395,808 when compared to current assets at June 30, 2016 reflecting a decrease in cash from sales of Renewable Energy Credits (RECs) at lower prices than the previous fiscal year. Current assets (unrestricted) at June 30, 2016, increased $313,061 when compared to current assets at June 30, 2015 reflecting an influx of cash primarily resulting from sales of Renewable Energy Credits (RECs) in a strong market as well as the transfer of excess Debt Service Reserve Funds as a result of the expired 2001 and 2002 Series revenue bonds.

(B) Restricted assets at June 30, 2017 increased $332,101 when compared to restricted assets at June 30, 2016 primarily due to additional investment in the Renewal and Replacement Fund. See Note 3(e) – Interest Rate Risk – Investments. Restricted assets at June 30, 2016 increased $68,485 when compared to restricted assets at June 30, 2015 primarily due to reduced debt service and debt service reserve requirements resulting from the expired 2001 and 2002 Series revenue bonds.

(C) Net capital assets at June 30, 2017 increased $701,862 when compared to net capital assets at June 30, 2016 primarily due to the completion of the Open Office Design renovations at the Pine Street facility. Net capital assets at June 30, 2016 increased $174,149 when compared to net capital assets at June 30, 2015 primarily due to capital additions related to the purchase of the Winooski One Hydro facility and solar projects in the City of Burlington.

(D) The Department records as deferred depreciation expense the difference between certain bond sinking fund requirements and the straight-line depreciation of the assets financed. This deferred depreciation is accumulated and reported in other noncurrent assets. In 2017, the balance of deferred depreciation was $2,122,673, after amortization of $76,289. In 2016, the balance of deferred depreciation was $2,198,962, after amortization of $59,149.

Beginning in 2011, based on these calculations, certain accumulated deferred depreciation balances became negative due to the fact that the financed assets were close to being fully depreciated when compared to the future debt sinking fund requirements. These accumulated amounts are displayed as noncurrent liabilities. In 2017, the balance of these deferred accounts decreased $288,783 to $4,843,254. In 2016, the balance of these deferred accounts decreased $334,526 to $5,132,037.

Other noncurrent assets at June 30, 2017 increased $2,673,943 when compared to other noncurrent assets at June 30, 2016 primarily due to additional equity investments in associated companies, VELCO/Transco offset by a decrease in the unamortized balance at June 30, 2017 for costs related to the McNeil Station turbine overhaul and deferred retirement of meters. See Note 4 – Regulatory Assets and Other Prepaid Charges.

Other noncurrent assets at June 30, 2016 decreased $321,374 when compared to other noncurrent assets at June 30, 2015 primarily due to a decrease in the unamortized balance at June 30, 2016 for costs related to the McNeil Station turbine overhaul and the deferred retirement of meters.

(E) Current liabilities at June 30, 2017 increased $733,304 when compared to current liabilities at June 30, 2016 due to an increase in current maturities of debt and an increase in Accounts Payable. Current liabilities at June 30, 2016 decreased $2,290,777 when compared to current liabilities at June 30, 2015 primarily due to the reduction in current maturities of debt, offset by an accrual for the costs associated with an employee voluntary buyout plan.

(F) Long-term debt, net at June 30, 2017 decreased $538,736 when compared to long-term debt at June 30, 2016 in accordance with current maturities schedules. Long-term debt, net at June 30, 2016 increased $194,425 when compared to long-term debt at June 30, 2015 reflecting the addition of the 2014 Series Revenue Bonds issued for the Winooski One hydroelectric facility and the advanced refunding of the 2004 Series Revenue Bonds.

(G) Net position at June 30, 2017 increased $1,103,639 when compared to net position at June 30, 2016 primarily due to lower costs in 2017 for production expenses related to the purchase of woodchips at the Joseph C. McNeil Generating Station. Net position at June 30, 2016 increased $3,507,635 when compared to net position at June 30, 2015 due to lower costs in 2016 associated with the reduction and replacement of positions related to the voluntary buyout and increased capital contributions offsetting capital projects.

*Changes in Net Position*

A summary of changes in net position for the fiscal years ended June 30, 2017, 2016 and 2015 follows:

| | 2017 | 2016 | 2015 | Percentage change 2016–2017 | Percentage change 2015–2016 | |
|---|---|---|---|---|---|---|
| Operating revenues: | | | | | | |
| Sales to ultimate customers | $ 47,529,289 | 47,800,524 | 47,875,436 | (0.6)% | (0.2)% | (A) |
| Other revenues | 12,784,024 | 14,858,224 | 14,895,496 | (14.0) | (0.3) | (B) |
| Less provision for uncollectible accounts | (89,762) | (153,066) | (148,617) | (41.4) | 3.0 | |
| Total operating revenues, net | 60,223,551 | 62,505,682 | 62,622,315 | (3.7) | (0.2) | |
| Operating expenses: | | | | | | |
| Production | 11,144,328 | 14,177,084 | 13,470,480 | (21.4) | 5.2 | (C) |
| Purchased power | 17,304,532 | 16,865,596 | 15,818,569 | 2.6 | 6.6 | (C) |
| Other power supply expenses | 1,156,405 | 1,636,353 | 1,518,914 | (29.3) | 7.7 | (C) |
| Transmission | 7,225,283 | 6,739,585 | 6,375,631 | 7.2 | 5.7 | (C) |
| Distribution | 3,032,272 | 2,927,353 | 3,690,484 | 3.6 | (20.7) | |
| Customer accounting and service | 4,479,246 | 3,461,938 | 4,554,303 | 29.4 | (24.0) | (D) |
| Administration and general | 5,667,958 | 5,238,862 | 5,981,607 | 8.2 | (12.4) | (E) |
| Depreciation and amortization | 5,914,766 | 5,751,037 | 4,608,670 | 2.8 | 24.8 | (F) |
| Taxes | 1,055,216 | 1,014,949 | 1,001,294 | 4.0 | 1.4 | |
| Total operating expenses | 56,980,006 | 57,812,757 | 57,019,952 | (1.4) | 1.4 | |
| Operating income | 3,243,545 | 4,692,925 | 5,602,363 | (30.9) | (16.2) | |



(Continued)

| | | 2017 | 2016 | 2015 | Percentage change 2016–2017 | Percentage change 2015–2016 | |
|---|---|---|---|---|---|---|---|
| Other income (expense): | | | | | | | |
| Dividend income | $ | 3,516,718 | 3,236,147 | 3,128,753 | 8.7 | 3.4 | (G) |
| Interest income | | 126,468 | 102,446 | 72,899 | 23.4 | 40.5 | |
| Loss on sale of capital assets | | (1,107,797) | (630,373) | (233,469) | 75.7 | 170.0 | (H) |
| Other | | 155,213 | 92,650 | 201,265 | 67.5 | (54.0) | |
| Total other income | | 2,690,602 | 2,800,870 | 3,169,448 | (3.9) | (11.6) | |
| Total finance charges | | (3,100,176) | (3,315,839) | (3,218,784) | (6.5) | 3.0 | |
| Income before transfers and capital contributions | | 2,833,971 | 4,177,956 | 5,553,027 | (32.2) | (24.8) | |
| Transfers to the City for payment: in lieu of taxes | | (2,261,785) | (2,153,778) | (1,936,583) | 5.0 | 11.2 | |
| Income before capital contributions | | 572,186 | 2,024,178 | 3,616,444 | (71.7) | (44.0) | |
| Capital contributions | | 531,453 | 1,483,457 | 833,098 | (64.2) | 78.1 | |
| Change in net position | | 1,103,639 | 3,507,635 | 4,449,542 | (68.5) | (21.2) | |
| Net position at beginning of year | | 62,945,185 | 59,437,550 | 54,988,008 | 5.9 | 8.1 | |
| Net position at end of year | $ | 64,048,824 | 62,945,185 | 59,437,550 | 1.8 % | 5.9 % | |

(A) Sales to ultimate customers reflects consistent usage in 2017 compared to 2016, and no changes in rates. Sales to ultimate customers also reflects consistent usage in 2016 compared to 2015, and no changes in rates.

(B) Other operating revenues for 2017 decreased by $2,074,200 as compared to 2016, primarily due to declining prices received for the sale of Renewable Energy Credits (REC). Other operating revenues recorded in 2016, decreased by $37,272 when compared to 2015, due to a termination of an agreement with a utility for the funding of a portion of the expired bonds of the McNeil Station.

(C) Power production expense for 2017 decreased when compared to 2016, reflecting lower wood fuel costs. Power production expense for 2016 represents an increase from 2015 based on slightly higher pricing and use of materials.

Purchased power costs for 2017 increased $438,936 when compared to 2016. The largest change in purchased power expense was a $1,800,000 increase in HancockWind, which went commercial in late 2016. The next biggest change was REC purchases, which decreased approximately $1,300,000 as BED had an opportunity to purchase RECs for resale at a profit. BED was exempted from Standard Offer (labeled SPEED) in 2017, which resulted in decreased expenses of about $700,000. Both Hydro-Quebec and Vermont Wind increased production during fiscal 2017, with expenses for both increasing by about

$500,000. ISO-NE Ancillary Expense netted to a gain in fiscal 2017 from a slight loss in fiscal 2016, due to better reserve performance. Purchased power costs for 2016 increased $1,047,027 when compared to 2015 largely due to the termination of a previous agreement for third party payments towards power costs and increased wind power purchases.

Other power supply expenses are based on ISO-NE administration charges for each of the comparative periods.

BED's main transmission costs continued to increase with ISO-NE increasing by approximately $300,000 as more transmission was built, while VELCO increased by about $200,000. For the year ending 2016, the main transmission cost area continued to increase with ISO-NE increasing by $200,000 as more transmission was built.

(D) The increase in customer accounting and services expense reflects a higher amount of costs ($622,225) associated with billable energy efficiency and demand side management programs during 2017 when compared to 2016. Also there were new costs incurred in 2017 related to customer payment processing fees and outsourcing of bill print, e-bills and mailing. The decrease in Customer accounting and services of $1,092,635 in 2016 compared to 2015 reflects the reduced labor and overheads related to the voluntary buyout in 2015 and the lower costs associated with the reduction and replacement of positions. The decrease in Customer services also reflects a lower amount of costs ($706,541) associated with billable efficiency and demand side management programs during 2016.

(E) The increase in administrative and general expense of $429,096 in 2017 when compared to 2016 is primarily due to an increase in pension expense partially offset by a reduction in outside services related to an organizational study. Administrative and general expense decreased by $742,745 from 2015 to 2016 due to the implementation of the voluntary buyout offered to qualifying employees in 2015.

(F) Depreciation and amortization, including deferred depreciation expense, increased by $163,729 in 2017, reflecting additional depreciation associated with capital additions. Depreciation and amortization increased by $1,142,367 in 2016 driven by an increase in sinking fund depreciation of approximately $645,000 and an increase in Winooski One Hydro amortization of deferred cost of about $250,000.

(G) Dividend income increased $280,571 in 2017 when compared to 2016 due to additional equity investments in associated companies, VELCO/Transco. The increase in 2016 from 2015 of $107,394 is directly attributable to dividend income from Transco.

(H) Loss on sale of capital assets increased $477,424 in 2017 when compared to 2016 primarily due to loss on retirement of McNeil Generation Station assets and retirements related to building renovations at the Pine Street facility. Loss on sale of capital assets increased by $396,904 in 2017 when compared to 2016 due to the retirement of a bucket loader in 2016, office renovations of furniture and equipment and a retirement of a structure at the Pine Street location.



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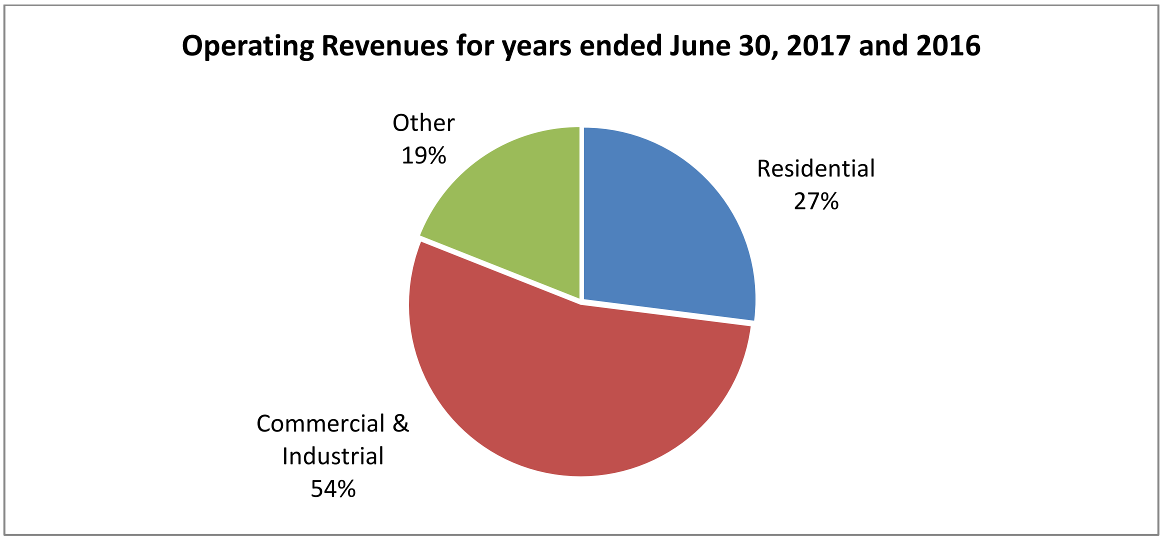
*Revenue*

The following charts show the major sources of operating revenues for the years ended June 30, 2017 and 2016:




*Long-Term Debt – Revenue and General Obligation Bonds*

The following chart summarizes long-term debt related to revenue and general obligation bonds for the years ended June 30, 2017, 2016 and 2015:

| | | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Revenue bonds, net of current installments | $ | 26,118,703 | 27,637,396 | 29,109,822 |
| General obligation bonds, net of current installments | | 47,560,593 | 46,580,636 | 44,913,785 |
| Total bonds, net | $ | 73,679,296 | 74,218,032 | 74,023,607 |

During the fiscal year ending June 30, 2017, the Department, through the City of Burlington, issued $3,000,000 in general obligation bonds, 2016 Series B, with an average coupon rate of 4.62%. These bonds were issued for use during fiscal year 2017 in accordance with the City Charter to cover annual capital improvements to the electric infrastructure of the Department.

During the fiscal year ended June 30, 2017, the Department, through the City of Burlington, issued two General Obligation Refunding Bonds, 2016 Series C and 2016 Series D. The Department's share of the 2016 Series C refunding was $7,785,000, the proceeds of which were used to refund 2009 Series C1 ($6,770,000), 2009 Series C2 ($720,000) and 2009 Series C3 ($720,000). The 2016 Series C were issued with an average coupon rate of 4.03% and will mature in November, 2029. The Department's share of the 2016 Series D refunding was $9,680,000, the proceeds of which were used to refund 2009 Series B ($5,605,000) and 2009 Series D



(Continued)

($3,120,000). The 2016 Series D were issued with an average coupon rate of 2.76% and will mature in November, 2029.

During the fiscal year ending June 30, 2016, the Department, through the City of Burlington, issued $3,000,000 in general obligation bonds, 2015 Series A, with an average coupon rate of 5.0%. These bonds were issued for use during fiscal year 2016 in accordance with the City Charter to cover annual capital improvements to the electric infrastructure of the Department.

In April of 2016, the City issued $16,435,000 in General Obligation Refunding Bonds Series 2016A on behalf of the Department and others. The Department's share of this advance refunding amounted to $10,235,000 of 2016 Series A bonds. These proceeds, in addition to cash on hand and bond premiums, were used to refund Series 2005A and 2005B ($1,210,000), and advance refund portions of Series 2006A ($605,000), 2007A ($605,000), 2009A ($8,075,000) and 2013B ($792,857). These 2016 Series A were issued with an average coupon rate of 4.82% and will mature in November 2029.

*Capital Assets*

The following chart summarizes capital assets and accumulated depreciation for the years ended June 30, 2017, 2016 and 2015:

| | | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Capital assets | $ | 190,701,577 | 188,990,287 | 183,280,434 |
| Accumulated depreciation/amortization | | 90,894,571 | 89,885,143 | 84,349,439 |
| Net capital assets | $ | 99,807,006 | 99,105,144 | 98,930,995 |

Capital assets are stated at historical cost and include assets related to land, production plant, transmission plant, distribution plant, general plant and other plant. Capital assets also include the Department's ownership interest in the following jointly owned facilities:

| | 2017 | 2016 |
|---|---|---|
| McNeil Station | 50.0 % | 50.0 % |
| Highgate Station | 7.7 | 7.7 |

In August 2014, the Department acquired the Winooski One hydroelectric facility, an existing unit on the Winooski River between the Cities of Burlington and Winooski. The Department recorded the net book value of the station as received. The difference between the fair market value purchase price and the net book value has been recorded in the Electric Plant Acquisition Adjustment account and is being amortized over the life of the associated bond financing. See Footnote 5 of the Notes to Financial Statements.

During 2017, net capital assets increased $701,862. Net capital asset additions amounted to $1,711,290 which included improvements to production plant, distribution and system upgrades. These capital asset additions were offset by depreciation expense of $6,248,794 and retired plant assets with a net carrying value of $5,239,366. These amounts include the above referenced Electric Plant Acquisition Adjustment of $11,922,742 with an unamortized balance at June 30, 2017 of $10,807,718, after amortizing $459,410 during the year.

During 2016, net capital assets increased $174,149. Net capital asset additions amounted to $5,709,853 which included improvements to production plant, distribution and system upgrades. These capital asset additions were offset by depreciation expense of $6,163,150 and retired plant assets with a net carrying value of $627,446. These amounts include the above referenced Electric Plant Acquisition Adjustment of $11,922,742, with an unamortized balance at June 30, 2016 of $11,267,128, after amortizing $454,410 during the year.

*Requests for Information*

This financial report is intended to provide an overview of the finances of the Department for those with an interest in this organization. Questions concerning any information contained in this report may be directed to James Reardon, CPA, Director of Finance and Administration.

**CITY OF BURLINGTON, VERMONT**
**ELECTRIC DEPARTMENT**

Statements of Net Position

June 30, 2017 and 2016

| **Assets and Deferred Outflows** | | **2017** | **2016** |
|---|---|---|---|
| Capital assets, net | $ | 99,807,006 | 99,105,144 |
| Current assets: | | | |
| Cash and cash equivalents | | 13,053,826 | 14,780,928 |
| Restricted investments – deposit with bond trustees and accrued interest receivable | | 606,206 | 630,031 |
| Accounts receivable, net of allowance for uncollectible accounts of $299,653 and $353,138, respectively | | 4,747,557 | 4,288,766 |
| Fuel and materials inventory, at average cost | | 4,768,298 | 5,017,140 |
| Unbilled revenues | | 2,072,118 | 2,163,490 |
| Other | | 1,213,438 | 1,000,721 |
| Total current assets | | 26,461,443 | 27,881,076 |
| Noncurrent assets: | | | |
| Restricted investments – deposits with bond trustees | | 5,723,235 | 5,367,309 |
| Regulatory assets and other prepaid charges | | 2,429,340 | 2,767,707 |
| Investments in associated companies | | 29,002,866 | 25,990,556 |
| Total noncurrent assets | | 37,155,441 | 34,125,572 |
| Total assets | $ | 163,423,890 | 161,111,792 |
| Deferred outflows: | | | |
| Deferred loss on advanced refunding | $ | 481,364 | 487,796 |
| Deferred pension contribution and change in proportion | | 6,104,933 | 3,684,416 |
| Total deferred outflows | $ | 6,586,297 | 4,172,212 |



(Continued)

**CITY OF BURLINGTON, VERMONT**
**ELECTRIC DEPARTMENT**

Statements of Net Position

June 30, 2017 and 2016

| **Liabilities, Deferred Inflows and Net Position** | | **2017** | **2016** |
|---|---|---|---|
| Liabilities: | | | |
| Current liabilities: | | | |
| Current installments of long-term debt: | | | |
| Revenue bonds | $ | 1,475,000 | 1,430,000 |
| General obligation debt of the City of Burlington | | 2,675,000 | 2,300,000 |
| Accounts payable | | 2,951,053 | 2,531,847 |
| Other current liabilities | | 1,952,406 | 2,058,308 |
| Liabilities payable from restricted assets – deposits with bond trustees | | 606,206 | 630,031 |
| Total current liabilities | | 9,659,665 | 8,950,186 |
| Noncurrent liabilities: | | | |
| Long-term debt: | | | |
| Revenue bonds | | 26,118,703 | 27,637,396 |
| General obligation debt of the City of Burlington | | 47,560,593 | 46,580,636 |
| Other noncurrent liabilities | | 1,580,510 | 1,364,559 |
| Net pension liability | | 16,198,638 | 12,674,005 |
| Regulatory liabilities | | 4,843,254 | 5,132,037 |
| Total noncurrent liabilities | | 96,301,698 | 93,388,633 |
| Total liabilities | $ | 105,961,363 | 102,338,819 |
| Net position: | | | |
| Invested in capital assets, net of related debt | $ | 40,608,237 | 39,811,834 |
| Restricted: | | | |
| Deposits with bond trustees | | 5,723,235 | 5,367,309 |
| Unrestricted | | 17,717,352 | 17,766,042 |
| Total net position | $ | 64,048,824 | 62,945,185 |

See accompanying notes to financial statements.

**CITY OF BURLINGTON, VERMONT**
**ELECTRIC DEPARTMENT**

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2017 and 2016

| | | 2017 | 2016 |
|---|---|---|---|
| Operating revenues: | | | |
| Sales to ultimate customers | $ | 47,529,289 | 47,800,524 |
| Other revenues | | 12,784,024 | 14,858,224 |
| | | 60,313,313 | 62,658,748 |
| Less provision for uncollectible accounts | | 89,762 | 153,066 |
| Total operating revenues, net | | 60,223,551 | 62,505,682 |
| Operating expenses: | | | |
| Production | | 11,144,328 | 14,177,084 |
| Purchased power | | 17,304,532 | 16,865,596 |
| Other power supply expenses | | 1,156,405 | 1,636,353 |
| Transmission | | 7,225,283 | 6,739,585 |
| Distribution | | 3,032,272 | 2,927,353 |
| Customer accounting, service, and sales | | 4,479,246 | 3,461,938 |
| Administrative and general | | 5,667,958 | 5,238,862 |
| Depreciation and amortization | | 5,702,272 | 5,475,659 |
| Deferred depreciation expense realized in current year | | 212,494 | 275,378 |
| Taxes | | 1,055,216 | 1,014,949 |
| Total operating expenses | | 56,980,006 | 57,812,757 |
| Operating income | | 3,243,545 | 4,692,925 |
| Nonoperating revenue (expenses): | | | |
| Dividends from associated companies | | 3,516,718 | 3,236,147 |
| Interest income | | 126,468 | 102,446 |
| Other income, net | | 155,213 | 92,650 |
| Interest and amortization on long term debt | | (3,100,176) | (3,315,839) |
| Loss on sale of capital assets | | (1,107,797) | (630,373) |
| Total nonoperating expenses | | (409,574) | (514,969) |
| Income before transfers and capital contributions | | 2,833,971 | 4,177,956 |
| Transfers to the City of Burlington for payment in lieu of taxes | | (2,261,785) | (2,153,778) |
| Income before capital contributions | | 572,186 | 2,024,178 |
| Capital contributions | | 531,453 | 1,483,457 |
| Increase in net position | | 1,103,639 | 3,507,635 |
| Net position at beginning of year | | 62,945,185 | 59,437,550 |
| Net position at end of year | $ | 64,048,824 | 62,945,185 |

See accompanying notes to financial statements.

**CITY OF BURLINGTON, VERMONT**
**ELECTRIC DEPARTMENT**

Statements of Cash Flows

Years ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| Cash flows from operating activities: | | |
| Receipts: | | |
| From ultimate customers | $ 47,453,036 | 48,280,260 |
| Miscellaneous electric revenues and rent of electric property | 12,546,344 | 15,059,425 |
| Payments made for: | | |
| Purchased power | (17,257,709) | (16,798,291) |
| Power production expense | (12,286,757) | (15,318,806) |
| Transmission expense | (7,243,830) | (6,722,527) |
| Distribution expense | (2,207,677) | (2,245,984) |
| Customer accounts and service expense | (4,488,564) | (3,615,496) |
| Administration and general expense | (4,473,048) | (9,074,557) |
| General taxes | (1,103,424) | (1,175,106) |
| Net cash provided by operating activities | 10,938,371 | 8,388,918 |
| Cash flows from capital and related financing activities: | | |
| Acquisition and construction of capital assets | (8,076,376) | (7,000,172) |
| Less capital contributions | 531,453 | 1,483,457 |
| Proceeds from sale of capital assets | 17,925 | 32,500 |
| Costs associated with bond issuance | 156,200 | 147,225 |
| Premium realized on GO bonds issued | 134,209 | 2,206,093 |
| Principal paid on outstanding debt | (20,665,000) | (15,015,000) |
| Proceeds from new debt issuance | 20,465,000 | 13,235,000 |
| Interest paid on outstanding debt | (3,277,699) | (3,329,882) |
| Net cash used in capital and related financing activities | (10,714,288) | (8,240,779) |
| Cash flows from noncapital financing activities: | | |
| Amounts paid in lieu of taxes | (2,275,586) | (2,153,778) |
| Other income | 119,994 | 92,650 |
| Net cash used in noncapital financing activities | (2,155,592) | (2,061,128) |
| Cash flows from investing activities: | | |
| Purchase of restricted investments | (2,970,015) | (2,825,654) |
| Proceeds from sale of restricted investments | 2,666,238 | 2,794,787 |
| Purchase of investment in associated companies | (3,012,310) | — |
| Interest and dividends on investments | 3,520,494 | 3,300,131 |
| Net cash provided by investing activities | 204,407 | 3,269,264 |
| Net (decrease) increase in cash and cash equivalents | (1,727,102) | 1,356,275 |
| Cash and cash equivalents at beginning of year | 14,780,928 | 13,424,653 |
| Cash and cash equivalents at end of year | $ 13,053,826 | 14,780,928 |
| Reconciliation of cash from operating activities: | | |
| Cash flows from operating activities: | | |
| Operating income | $ 3,243,545 | 4,692,925 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 5,364,395 | 5,157,985 |
| Deferred depreciation expense realized in current year | 212,494 | 275,378 |
| Amortization expense of PSB deferred expense | 133,566 | 133,566 |
| Deferred projects amortization | 459,410 | 454,410 |
| Changes in assets and liabilities: | | |
| Change in accounts receivable | (458,790) | 792,550 |
| Change in fuel and materials inventory | 248,843 | 337,306 |
| Change in unbilled revenues | 91,372 | (111,613) |
| Change in other deferred charges | 128,512 | 128,658 |
| Change in other current assets | (118,345) | 25,811 |
| Change in accounts payable | 419,206 | (360,775) |
| Change in other current liabilities | (105,902) | (3,141,840) |
| Change in net deferred inflow/outflow pension liability | 1,104,116 | (185,648) |
| Change in other noncurrent liabilities | 215,949 | 190,205 |
| Net cash provided by operating activities | $ 10,938,371 | 8,388,918 |

See accompanying notes to financial statements.

## (1) Summary of Significant Accounting Policies

### *(a) Regulation and Operations*

The Burlington Electric Department (the Department) is an enterprise fund of the City of Burlington, Vermont (the City). The City has overall financial accountability for the Department, its Council appoints the Commissioners of the Department which oversee its operations, and the City collateralizes the Department's general obligation debt. The Department is also subject as to rates, accounting, and other matters, to the regulatory authority of the State of Vermont Public Utilities Commission (PUC) and the Federal Energy Regulatory Commission (FERC). In accordance with FASB ASC Topic 980, *Regulated Operations*, the Department records certain assets and liabilities in accordance with the economic effects of the rate making process.

### *(b) Capital Assets*

Capital assets are stated at historical cost. Provisions for depreciation of general capital assets are reported using the straight-line method at rates based upon the estimated service lives and salvage values of the several classes of property. Depreciation of capital assets of the McNeil Station, the Highgate Converter Facility, and the Winooski One hydroelectric plant, are calculated using the straight-line method. However, a portion of the current depreciation expense is only recoverable through future rates. The difference is included in deferred charges (calculated as the straight-line depreciation expense less the depreciation expense on a sinking fund basis) and will be recovered in future years. See note 4, Regulatory Assets and Other Prepaid Charges.

Maintenance and repairs of capital assets are charged to maintenance expense. Replacements and betterments are capitalized to capital assets. When assets are retired or otherwise disposed of, the costs are removed from capital assets, and such costs, plus removal costs, net of salvage, are charged to accumulated depreciation.

The Department's capitalization policy considers four factors. Property will be capitalized when:

1. The combined cost to put a unit in service is more than $500 and

2. The unit's estimated life is at least three (3) years.

3. The unit is vital to the Department and must be controlled, and tracked, even if it falls under the dollar limit stated in (1) above. Watt-hour meters to record electric usage are the only unit in this category.

4. The Public Utilities Commission (PUC) rules in a rate making decision that the Department will capitalize a cost that normally would not be capitalized based on the first three (3) factors above. The Department does not have any assets in this category.

The depreciable lives of utility plant are as follows:

| | Depreciable lives |
|---|---|
| Production plant | 10–50 years |
| Transmission plant | 33–50 years |
| Distribution plant | 25–50 years |
| General plant | 5–50 years |
| Other plant | 5 years |

### *(c) Jointly Owned Facilities*

The Department has recorded its ownership interest in jointly owned facilities as capital assets. The Department's ownership interest in each of the jointly owned facilities is as follows:

| | 2017 | 2016 |
|---|---|---|
| McNeil Station | 50.0 % | 50.0 % |
| Highgate Station | 7.7 | 7.7 |

The Department is responsible for its proportionate share of the operating expenses of the jointly owned facilities which are billed to the Department on a monthly basis. The associated operating costs allocated to the Department are classified in their respective expense categories in the statements of operations. Separate financial statements are available from the Department for these jointly owned facilities.

### *(d) Cash, Cash Equivalents, and Investments*

The Department considers unrestricted short-term investments including money markets and certificate of deposits, which have an original maturity of 90 days or less to be cash equivalents. The Department considers all restricted money market funds and certificate of deposits which have an original maturity of 90 days or more to be investments. Investments are carried at fair value.

### *(e) Investments in Associated Companies*

The Department follows the cost method of accounting for its 6.38% Class B common stock, 1.97% Class C common stock and 7.69% Class C preferred stock ownership interest in Vermont Electric Power Company, Inc. (VELCO), and its 5.31% ownership interest in Vermont Transco LLC (Transco). Transco is an affiliated entity of VELCO. VELCO owns and operates a transmission system in the State of Vermont over which bulk power is delivered to all electric utilities in the State of Vermont. Under a Power Transmission Contract with the State of Vermont, VELCO bills all costs, including amortization of its debt and a fixed return on equity, to the State of Vermont and others using the system.

During the year ended June 30, 2017, the Department purchased 132,542 Class A units and 168,689 Class B units in VT Transco LLC for a cost of $3,012,310.



(Continued)

During the year ended June 30, 2016 there was no offer of equity investment from VELCO/Transco.

**Schedule of Ownership in Associated Companies**

| | FY17 | FY16 |
|---|---|---|
| Velco, Class B common stock | $ 1,403,800 | 1,403,800 |
| Velco, Class C common stock | 39,200 | 39,200 |
| Velco, Class C preferred stock | 11,196 | 11,196 |
| VT Transco, LLC, A Units | 12,121,420 | 10,796,000 |
| VT Transco, LLC, B Units | 15,427,250 | 13,740,360 |
| | $ 29,002,866 | 25,990,556 |

***(f) Restricted Investments – Deposits with Bond Trustees***

The Department has established certain funds required by the bond resolution pursuant to which the Electric System Revenue Bonds were issued. Investment securities held in deposits with bond trustees are stated at fair value.

***(g) Liabilities Payable from Restricted Assets with Bond Trustees***

This balance represents accrued interest expense associated with the Electric System Revenue Bonds. Deposits are made with the Bond Trustees as required by the bond resolution pursuant to which the Electric System Revenue Bonds were issued.

***(h) Operating and Nonoperating Revenues and Expenses***

Operating revenues are defined as income received from the sale of electricity to retail customers as well as to other entities for the purpose of resale. In addition, it includes rents from electric property, fees for changing, connecting, or disconnecting service, revenues from the transmission of electricity of others over transmission facilities of the utility, revenue from the sale of RECs and revenue received from requesting utilities to run generation facilities when not economically feasible due to normal market conditions.

Operating expenses are defined as the ordinary costs and expenses of the Department for the operation, maintenance, and repair of the electric plant. Operating expenses include the cost of production by the Department’s owned generating facilities, purchased power, system control and load dispatch, maintenance of transmission and distribution systems, customer accounting and service expenses, administrative and general expenses, and depreciation and amortization. Operating expenses do not include the principal and interest on bonds, notes, or other costs of indebtedness.

Nonoperating revenues are defined as income received from sources other than the sale of electricity or from rents and fees from electric property or services. Nonoperating revenues generally include interest and dividend income, services rendered to customers upon their request, sale of parts from inventory to contractors, and rental of nonutility property merchandise.

Revenues, including amounts billed to the City of Burlington, are billed monthly based on billing rates authorized by the PUC which are applied to customers’ consumption of electricity.



(Continued)

The fair value of donated capital assets is reported in the accompanying financial statements as capital contributions.

### *(i) Estimated Unbilled Revenue*

The Department records unbilled revenue at the end of each accounting period based on estimates of electric services rendered but not yet billed to customers.

### *(j) Taxes and Fees*

The Department is exempt from federal income taxes. Although it is also exempt from municipal property taxes, the Department pays an amount in lieu of taxes to the City of Burlington. The Department incurred payments in lieu of taxes totaling $2,275,586 and $2,186,381 for the years ended June 30, 2017 and 2016, respectively, with $13,801 and $32,603, respectively, being allocated to operating expenses.

In addition to the payments in lieu of taxes, the Department has paid indirect costs of $310,267 and $338,410 in 2017 and 2016, respectively, for a prorated share of costs associated with general government, human resources and general accounting as billed by the City of Burlington's Treasurer's Office.

The City of Burlington requires the Department to charge a franchise fee on its electric bills to its retail customers on behalf of the City of Burlington. The franchise fee for 2017 and 2016 was 3.5% and 3.5%, respectively, of operating revenues and was charged separately to customers on electric bills and is therefore excluded from both operating revenues and expenses. The Department is not required to pay the City for franchise fee amounts billed to customers but not collected.

The Vermont Department of Taxes assesses a 6% sales and use tax on 31% of taxable purchases for the McNeil Station. Due to a manufacturers' exemption clause, purchases of wood chips, oil, gas, and electricity were not subject to sales and use tax for the years ended June 30, 2017 and 2016, respectively. The City of Burlington imposed a 1% sales tax upon taxable sales within the City. The McNeil Station is exempt from these sales taxes due to only being subject to use taxes.

### *(k) Inventories*

Inventories are comprised of fuel, materials, and supplies and are stated at the lower of cost or market. Cost is determined on a weighted average cost basis. Fuel is reported as inventory until it is used for power production, at which time it is expensed as a component of fuel expense. Wood fuel inventory consists of the cost of woodchips. As wood fuel inventory is used, it is expensed on a weighted average cost basis. Material and supplies inventory consists of items primarily used in the utility business for construction, operation and maintenance of poles, wires, and conduit.

### *(l) Deferred Loss on Refunded Debt*

The Department incurred various losses in prior years in connection with the refinancing of Electric System Revenue Bonds. A deferred loss on reacquired (refunded) debt is amortized over the terms of the related debt. Unamortized balances are included as a deferred outflow on the statements of net position.


(Continued)

***(m) Unamortized Debt Premiums and Discounts***

Premiums and discounts incurred in connection with the sale of bonds are amortized over the terms of the related debt. Unamortized balances are included as a component of long-term debt.

***(n) Restricted Net Position***

Net position is restricted when constraints are placed on them externally. When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted assets first with unrestricted resources utilized as needed.

***(o) Use of Estimates***

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the allowance for doubtful accounts and unbilled revenue and the valuation of the net pension liability. Actual results could differ from those estimates.

***(p) Renewable Energy Credit Sales***

In 2008, the McNeil Generating Station (McNeil) installed a Regenerative Selective Catalytic Reduction (RSCR) unit. The RSCR unit significantly reduces McNeil's Nitrous Oxide (NOx) emission levels which allows the station to qualify to sell Connecticut Class 1 Renewable Energy Certificates (RECs). The McNeil RECs are determined to be qualified for sale based on a review of emissions outputs submitted by McNeil. At the end of every quarter, an affidavit is signed stating whether or not McNeil's emissions output met the requirements needed to sell the RECs. McNeil receives a certification from the State of Connecticut indicating that they met the standards for the quarter based on the statistics provided by McNeil. Sales are recorded as revenue upon delivery of the RECs to the customer.

Effective September 1, 2014, the Department became the 100% owner of the Winooski One hydro facility. Until August 15, 2017, operations at the facility were managed through a contract with Northbrook Energy and currently is managed by employees of the Department. Winooski One is a Low Impact Hydro Institute (LIHI) certified generator and is qualified to produce Massachusetts Class 2 RECs (non waste-to-energy).

In February 2015, the Department commissioned a 500 KW AC solar array at the Burlington International Airport. The Department owns 100% of this resource, and leases space on the parking garage roof under a long term agreement between the Department and the Burlington International Airport. The Airport solar array is designed to help reduce the Department's peak demand and energy needs during high priced periods. There are several other solar arrays in Burlington that the Department purchases energy from and receives RECs as well.

In October 2015, the Department commissioned a 107 KW AC solar array at the Department's offices at 585 Pine Street. The Department owns 100% of this resource. Like the Airport solar array, the Pine Street solar array is designed to help reduce the Department's peak demand and energy needs during high priced periods.



(Continued)

For the year ended June 30, 2017, REC revenue for McNeil, Winooski One hydro facility and the solar arrays was $5,411,494, $753,364, and $37,658, respectively. For the year ended June 30, 2016, REC revenue for McNeil, Winooski One hydro facility and the solar arrays was $7,761,875, $687,844, and $20,889, respectively.

The Department also receives RECs from Vermont Standard Offer projects purchased by the Vermont Purchasing Agent. Energy from these projects is assigned to BED pro-rata based on retail sales, and BED receives RECs in an amount equal to the energy it receives from these projects. At the end of 2016, the Department's status as a distribution utility that sources 100% of the load it serves from renewable sources exempted it from purchasing energy from these projects in 2017.

The Department receives RECs from the Vermont Wind Project in Sheffield (the Department is entitled to 40% of the output of the 40MW project). During FY 2013, commercial operations commenced at the Georgia Mountain Community Wind Farm (the Department has entitlement to the full 10MW of output from the project). Additionally, the Department receives RECs from its entitlement to 13.5 MW of the 52 MW Hancock Wind Project, which began in November, 2016. The RECs from all of these wind facilities are qualified for participation in most of the high value New England REC markets, making the sale of these RECs a significant source of revenue.

The Department purchases Class II RECs to replace the Class I RECs that are sold in the market to maintain its status as 100% renewably sourced. At the end of 2016, these purchases exceeded the load that needed to be offset. Due to this, 68,000 Class II Hydro RECs were sold into the market for 2016.

The Department planning staff monitors output levels from the REC producing units, REC commitments made, the markets for these RECs, and the State statutes and rules that govern the creation and sale of these RECs. The Department has and will continue to involve itself in discussions/proceedings as needed, either in Vermont or elsewhere in New England, where such rules and statutes are the subject at hand.

The Department periodically sells RECs either, through broker initiated transactions, or through direct placement with entities that need the RECs to comply with various New England statutes. The Department enters into agreements to sell these RECs for prior, current, and future years' production.

### *(q) Pollution Remediation Obligations*

The Department faces possible liability as a potentially responsible party (PRP) with respect to the cleanup of certain hazardous waste sites. The City is currently a PRP as a landowner of a hazardous waste superfund site in Burlington, Vermont that is the subject of a remediation investigation by the Environmental Protection Agency (the EPA). The Department has agreed to share on an equal basis all past and future costs incurred in connection with any and all settlements or actions resulting from the designation of the City as a PRP at this site. In light of the agreement between the City and the EPA concerning the remediation plan at the site, the Department believes that the likelihood of any liability material to the financial position of the Department is remote and as such no liability has been accrued as of June 30, 2017 and 2016.



(Continued)

### *(r) Pension Obligations – GASB 68*

In accordance with GASB Statement No. 68, *Accounting and Reporting for Pensions* and GASB No. 71, *Pension Transitions for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, employers report a net pension liability (NPL) and related pension expense as determined by the plan under the requirements contained in GASB Statement No. 67. Disclosures required under GASB Statement No. 68 apply to the Department for its participation in the City of Burlington Employees Retirement System defined benefit plan.

## (2) Capital Assets

| | Capital assets | | | |
|---|---|---|---|---|
| | June 30, 2016 | Additions | Disposals and transfers | June 30, 2017 |
| Operating: | | | | |
| Land – nondepreciable | $ 1,140,532 | — | — | 1,140,532 |
| Production plant | 16,579,425 | 408,614 | 64,052 | 16,923,987 |
| Transmission plant | 2,268,356 | 42,551 | — | 2,310,907 |
| Distribution plant | 77,732,079 | 4,105,066 | 1,425,825 | 80,411,320 |
| General plant | 12,605,501 | 2,158,980 | 2,328,654 | 12,435,827 |
| Other plant | 7,336,429 | 86,043 | 1,891,721 | 5,530,751 |
| Depreciable operating | 116,521,790 | 6,801,254 | 5,710,252 | 117,612,792 |
| Construction WIP | 2,300,449 | 5,769,525 | 5,579,404 | 2,490,570 |
| Total | 119,962,771 | 12,570,779 | 11,289,656 | 121,243,894 |
| Highgate: | | | | |
| Land – nondepreciable | 56,690 | — | — | 56,690 |
| Transmission plant | 3,375,781 | 13,316 | (406,764) | 3,795,861 |
| General plant | 501,797 | 637 | 428,549 | 73,885 |
| Depreciable Highgate | 3,877,578 | 13,953 | 21,785 | 3,869,746 |
| Total | 3,934,268 | 13,953 | 21,785 | 3,926,436 |

| | Capital assets | | | |
|---|---|---|---|---|
| | **June 30, 2016** | **Additions** | **Disposals and transfers** | **June 30, 2017** |
| McNeil 50%: | | | | |
| Land – nondepreciable | $ 138,299 | — | — | 138,299 |
| Production plant | 52,395,764 | 661,862 | 398,197 | 52,659,429 |
| General equipment | 218,913 | 481 | 59,735 | 159,659 |
| Other plant | 378,252 | — | — | 378,252 |
| Depreciable McNeil 50% | 52,992,929 | 662,343 | 457,932 | 53,197,340 |
| Total | 53,131,228 | 662,343 | 457,932 | 53,335,639 |
| CWIP | 39,278 | 662,342 | 428,754 | 272,866 |
| Total capital assets | 177,067,545 | 13,909,417 | 12,198,127 | 178,778,835 |
| Electric Plant Acquisition Adjustment: | | | | |
| Production Plant - Winooski One | 11,922,742 | — | — | 11,922,742 |
| Total capital assets & acquisition adjustment | $ 188,990,287 | 13,909,417 | 12,198,127 | 190,701,577 |



(Continued)

| | Capital assets | | | |
|---|---|---|---|---|
| | **June 30, 2015** | **Additions** | **Disposals and transfers** | **June 30, 2016** |
| Operating: | | | | |
| Land – nondepreciable | $ 1,140,532 | — | — | 1,140,532 |
| Production plant | 15,556,648 | 1,022,777 | — | 16,579,425 |
| Transmission plant | 2,268,356 | — | — | 2,268,356 |
| Distribution plant | 75,263,840 | 2,700,226 | 231,987 | 77,732,079 |
| General plant | 12,610,280 | 576,012 | 580,791 | 12,605,501 |
| Other plant | 7,284,092 | 52,337 | — | 7,336,429 |
| Depreciable operating | 112,983,216 | 4,351,352 | 812,778 | 116,521,790 |
| Construction WIP | 805,122 | 5,525,999 | 4,030,672 | 2,300,449 |
| Total | 114,928,870 | 9,877,351 | 4,843,450 | 119,962,771 |
| Highgate: | | | | |
| Land – nondepreciable | 56,690 | — | — | 56,690 |
| Transmission plant | 3,432,920 | 13,292 | 70,431 | 3,375,781 |
| General plant | 501,797 | — | — | 501,797 |
| Depreciable Highgate | 3,934,717 | 13,292 | 70,431 | 3,877,578 |
| Total | 3,991,407 | 13,292 | 70,431 | 3,934,268 |

| | | Capital assets | | | |
|---|---|---|---|---|---|
| | | June 30, 2015 | Additions | Disposals and transfers | June 30, 2016 |
| McNeil 50%: | | | | | |
| Land – nondepreciable | $ | 138,299 | — | — | 138,299 |
| Production plant | | 51,712,137 | 914,098 | 230,471 | 52,395,764 |
| General equipment | | 208,691 | 10,222 | — | 218,913 |
| Other plant | | 378,252 | — | — | 378,252 |
| Depreciable McNeil 50% | | 52,299,080 | 924,320 | 230,471 | 52,992,929 |
| Total | | 52,437,379 | 924,320 | 230,471 | 53,131,228 |
| CWIP | | 36 | 962,110 | 922,868 | 39,278 |
| Total capital assets | | 171,357,692 | 11,777,073 | 6,067,220 | 177,067,545 |
| Electric Plant Acquisition Adjustment: | | | | | |
| Production Plant - Winooski One | | 11,922,742 | — | — | 11,922,742 |
| Total capital assets & acquisition adjustment | $ | 183,280,434 | 11,777,073 | 6,067,220 | 188,990,287 |

| | | Accumulated depreciation | | | |
|---|---|---|---|---|---|
| | | June 30, 2016 | Depreciation | Deletions | June 30, 2017 |
| Operating: | | | | | |
| Production plant | $ | 6,210,151 | 773,235 | 64,060 | 6,919,326 |
| Transmission plant | | 385,645 | 67,158 | — | 452,803 |
| Distribution plant | | 28,165,363 | 2,212,512 | 890,392 | 29,487,483 |
| General plant | | 8,152,212 | 603,328 | 2,188,365 | 6,567,175 |
| Other plant | | 5,392,793 | 1,037,708 | 1,875,530 | 4,554,971 |
| Total | | 48,306,164 | 4,693,941 | 5,018,347 | 47,981,758 |



(Continued)

| | | Accumulated depreciation | | | |
|---|---|---|---|---|---|
| | | June 30, 2016 | Depreciation | Deletions | June 30, 2017 |
| Highgate: | | | | | |
| Transmission plant | $ | 1,494,760 | 101,994 | (77,923) | 1,674,677 |
| General plant | | 92,679 | 21,404 | 99,709 | 14,374 |
| Total | | 1,587,439 | 123,398 | 21,786 | 1,689,051 |
| McNeil 50%: | | | | | |
| Production plant | | 38,844,124 | 938,866 | 151,270 | 39,631,720 |
| General equipment | | 130,186 | 24,675 | 47,963 | 106,898 |
| Other plant | | 361,616 | 8,504 | — | 370,120 |
| Total | | 39,335,926 | 972,045 | 199,233 | 40,108,738 |
| Total accumulated depreciation | | 89,229,529 | 5,789,384 | 5,239,366 | 89,779,547 |
| Electric Plant Acquisition Adjustment: Accumulated Amortization | | 655,614 | 459,410 | — | 1,115,024 |
| | $ | 89,885,143 | 6,248,794 | 5,239,366 | 90,894,571 |
| Net capital assets | $ | 99,105,144 | 7,660,623 | 6,958,761 | 99,807,006 |

| | | Accumulated depreciation | | | |
|---|---|---|---|---|---|
| | | June 30, 2015 | Depreciation | Deletions | June 30, 2016 |
| Operating: | | | | | |
| Production plant | $ | 5,539,846 | 670,133 | (172) | 6,210,151 |
| Transmission plant | | 318,908 | 66,737 | — | 385,645 |
| Distribution plant | | 26,074,496 | 2,206,914 | 116,047 | 28,165,363 |
| General plant | | 7,918,515 | 585,368 | 351,671 | 8,152,212 |
| Other plant | | 4,295,404 | 1,097,389 | — | 5,392,793 |
| Total | | 44,147,169 | 4,626,541 | 467,546 | 48,306,164 |
| Highgate: | | | | | |
| Transmission plant | | 1,465,033 | 99,779 | 70,052 | 1,494,760 |
| General plant | | 69,571 | 23,487 | 379 | 92,679 |
| Total | | 1,534,604 | 123,266 | 70,431 | 1,587,439 |



(Continued)

| | | Accumulated depreciation | | | |
|---|---|---|---|---|---|
| | | **June 30, 2015** | **Depreciation** | **Deletions** | **June 30, 2016** |
| McNeil 50%: | | | | | |
| Production plant | $ | 38,009,126 | 924,467 | 89,469 | 38,844,124 |
| General equipment | | 106,236 | 23,950 | — | 130,186 |
| Other plant | | 351,100 | 10,516 | — | 361,616 |
| Total | | 38,466,462 | 958,933 | 89,469 | 39,335,926 |
| Total accumulated depreciation | | 84,148,235 | 5,708,740 | 627,446 | 89,229,529 |
| Electric Plant Acquisition Adjustment: Accumulated Amortization | | 201,204 | 454,410 | — | 655,614 |
| | $ | 84,349,439 | 6,163,150 | 627,446 | 89,885,143 |
| Net capital assets | $ | 98,930,995 | 5,613,923 | 5,439,774 | 99,105,144 |

During fiscal 2017 and 2016, respectively, the Department allocated $121,533 and $136,736 of depreciation expense to other operating expense captions in the statements of revenues, expenses and changes in net position.

In August 2014, the Department acquired the Winooski One hydroelectric facility, an existing facility on the Winooski River between the Cities of Burlington and Winooski. The Department recorded the net book value of the station as received. The difference between the fair market value purchase price and the net book value has been recorded in the Electric Plant Acquisition Adjustment account and is being amortized over the life of the associated bond financing.

## (3) Cash and Cash Equivalents and Investments

### *(a) Custodial Credit Risk – Deposits*

The custodial credit risk for current operating deposits is the risk that in the event of a bank failure, the Department’s deposits may not be recovered. The deposits in the bank in excess of the insured amount are uninsured and uncollateralized. The deposits at June 30, 2017, were $13,884,869 of which $12,093,224 was exposed to custodial credit risk; however, the City of Burlington is insured with FHLB, Pittsburgh under a letter of credit for $20,000,000 which would cover uninsured amounts over the FDIC level of $250,000. The deposits at June 30, 2016, were $17,068,281, of which $15,391,006 was exposed to custodial credit risk; however, the City of Burlington is insured with FHLB, Pittsburgh under a letter of credit for $20,000,000 which would cover uninsured amounts over the FDIC level of $250,000.



(Continued)

### (b) Fair Value Measurements

The Department has implemented GASB statement No. 72, *Fair Value Measurement and Application* (GASB 72), which sets forth the framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used for measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for incidental assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB 72 are described as follows:

**Level 1** – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Department has the ability to access.

**Level 2** – Input to valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

**Level 3** – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the Department’s own assumptions about the inputs market participants would use in the pricing of the asset or liability (including assumption of risk). Unobservable inputs are developed based on the best information available in circumstances and may include the Department’s own data.

All of the Department's investments as of June 30, 2017 and 2016 are considered to be Level 1 under the fair value hierarchy.

### (c) Investments

The Department has a formal investment policy and is authorized per Article 1, Section 1.1 of the General Bond Resolution to invest in obligations as follows:

(1) Direct obligations of the United States of America or obligations guaranteed by the United States of America.

(2) Bonds, notes or other evidences of indebtedness issued or guaranteed by the CoBank, Federal Intermediate Credit Banks, FHLB, FNMA, GNMA, Export-Import Bank of the United States, Federal Land Banks, U.S. Postal Service, Federal Financing Bank, or any agency or instrumentality of or corporation wholly owned by the United States of America.

(3) New Housing Authority Bonds issued by public agencies or municipalities and fully secured by a pledge of annual contributions under annual contributions contract with the United States of

America, or Project Notes issued by public agencies or municipalities and fully secured by a requisition or payment agreement with the United States of America.

(4) Obligations of any state, commonwealth or territory of the United States of America, or the district of Columbia, or any political subdivision of the foregoing, with an investment grade rating not lower than the three highest categories by at least one nationally recognized debt rating service.

(5) Certificates of deposit and bankers acceptances issued by banks which are members of the FDIC and each of which has a combined capital and surplus of not less than ten million dollars, provided that the time deposits in and acceptances of any bank under the Resolution (a) do not exceed at any time twenty-five percent of the combined capital and surplus of the bank or (b) are fully secured by obligations described in items 1, 2, 3, and 4 of this paragraph.

(6) Repurchase contracts with banks which are described in item 5 of this paragraph, or with recognized primary dealers in government bonds, fully secured by obligations described in items 1, 2, 3, and 4 of this paragraph.

***(d) Concentration of Credit Risk – Investments***

Concentration of credit risk of investments is the risk of loss attributable to the magnitude of a Department’s investment in a single issuer. The Department invests its current operating cash in money market accounts with TD Bank, KeyBank and Northfield Savings, and its restricted noncurrent funds in several money market accounts with its bond trustees (US Bank and Peoples United), which exceed 18% of the total investment balance at June 30, 2017. The invested balance of current money market funds reported within Cash and Cash Equivalents at June 30, 2017 and 2016 was $2,206,053 and $4,212,742, respectively. The invested balance on noncurrent money market funds reported within Restricted Investments-Deposits with Bond Trustees at June 30, 2017 and 2016 was $ 3,499,498 and $3,239,114, respectively. The invested balance of noncurrent Certificates of Deposit reported within noncurrent restricted investments at June 30, 2017 and 2016 was $2,757,396 and $2,714,000, respectively.

***(e) Interest Rate Risk – Investments***

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Department has minimized its risk exposure as its investments are limited to government securities and other high quality investments as outlined in the investment policy.

The money market funds held by the Department are not rated.

The Department's investments as of June 30, 2017 and 2016 are (all of which are restricted by Bond resolution) presented below by investment type, and debt securities are presented by maturity.

| | Investment type | | | Investment maturities (in years) | | | | |
|---|---|---|---|---|---|---|---|---|
| Year | Money market | Certificates of deposit | Total fair value | Less than 1 | 1-2 | 2-3 | 3-4 | 4-5 |
| 2017 | $ 3,499,498 | 2,757,396 | 6,256,894 | 4,542,894 | — | 1,714,000 | — | — |
| 2016 | 3,239,113 | 2,714,000 | 5,953,113 | 4,239,113 | — | — | 1,714,000 | — |

The Department is required by its bond indenture to make monthly deposits into the renewal and replacement fund equal to 10% of the monthly revenue bond debt service funding requirements. Funds on deposit may be withdrawn from the renewal and replacement fund for expenses allowed by the bond covenant. Amounts in excess of $867,000 at June 30 may be returned to the revenue fund. A summary of deposits with bond trustees is as follows:

| | June 30 2017 | June 30 2016 |
|---|---|---|
| Bond funds: | | |
| Renewal and replacement fund | $ 1,408,608 | 1,135,640 |
| Debt service fund | 2,090,889 | 2,073,296 |
| Debt service reserve fund | 2,757,397 | 2,744,177 |
| | 6,256,894 | 5,953,113 |
| Accrued interest receivable | 72,547 | 44,227 |
| | $ 6,329,441 | 5,997,340 |

## (4) Regulatory Assets and Other Prepaid Charges

Regulatory assets and other prepaid charges at June 30, 2017 and 2016 are comprised of the following:

| | 2017 | 2016 |
|---|---|---|
| Deferred depreciation expense to be recovered in future years (a) | $ 2,122,673 | 2,198,962 |
| Deferred VPSB accounting orders (b) | 133,567 | 267,133 |
| Deferred retirement of meters (c) | 173,100 | 301,612 |
| | $ 2,429,340 | 2,767,707 |



(Continued)

### *(a) Deferred Depreciation Expense to be Recovered in Future Years*

Provisions for depreciation of general capital assets are reported using the straight-line method at rates based upon the estimated service lives and salvage values of the several classes of property. Depreciation of capital assets of the McNeil Station, the Highgate Converter Station, and the Winooski One facility, are calculated using the straight-line method. However, a portion of the current depreciation expense is only recoverable through future rates. The difference is included in deferred charges (calculated as the straight-line depreciation expense less the depreciation expense on a sinking fund basis) and will be recovered in future years. The Department recorded straight-line depreciation of $5,789,384 and $5,708,740 for the years ended June 30, 2017 and 2016, respectively. In 2017 and 2016, $212,494 and $275,378, respectively, of deferred depreciation expense was realized. Unamortized deferred depreciation of $2,122,673 and $2,198,962 remained at June 30, 2017 and 2016, respectively.

### *(b) Deferred-VPSB Accounting Orders*

In 2012, the Department obtained an accounting order from the Vermont Public Service Board (VPSB) related to costs for the McNeil Station turbine overhaul. The total deferred cost was $935,044 and will be amortized over seven years (84 months) beginning July 2011. Amortization expense related to the deferred overhaul charges was $133,566 and $133,566 for 2017 and 2016, respectively, and has been reported as a component of production expense. The unamortized balance at June 30, 2017 and 2016 is $133,567 and $267,133, respectively.

### *(c) Deferred Retirement of Meters*

Due to the Smart Grid/Meter project in 2012-2013, and under a Department of Public Service directive, the depreciated book value of certain retired meters has been deferred and will be amortized over a five year period. Amortization expense related to the deferred write off was $128,512 and $128,658 for 2017 and 2016, respectively. The unamortized balance at June 30, 2017 and 2016 is $173,100 and $301,612, respectively.

## (5) Long-Term Liabilities

Outstanding debt consists of the following at June 30, 2017 and 2016:

| | June 30, 2016 | Increases | Payments and reductions | June 30, 2017 | Current portion |
|---|---|---|---|---|---|
| Outstanding debt: | | | | | |
| Electric System Revenue Bonds: | | | | | |
| 5.24% 2011 Series A, due 2031 | $ 8,430,000 | — | (360,000) | 8,070,000 | 375,000 |
| 8.11% 2011 Series B, due 2031 | 3,040,000 | — | (100,000) | 2,940,000 | 105,000 |
| 3.78% 2014 Series A, due 2025 | 11,565,000 | — | (445,000) | 11,120,000 | 455,000 |
| 3.36% 2014 Series B, due 2035 | 5,310,000 | — | (525,000) | 4,785,000 | 540,000 |
| Total revenue bonds | 28,345,000 | — | (1,430,000) | 26,915,000 | 1,475,000 |
| Adjustments: | | | | | |
| Add unamortized premium | 722,396 | — | (43,693) | 678,703 | — |
| Total revenue debt of the department | 29,067,396 | — | (1,473,693) | 27,593,703 | 1,475,000 |
| General obligation debt, repayable from the departments Resources: | | | | | |
| 3.351%, due 2017 – CI #32 | 40,000 | — | (40,000) | — | — |
| 3.943%, due 2017 – CI#2006A | 45,000 | — | (45,000) | — | — |
| 3.750%, due 2018 – CI#2007A | 90,000 | — | (45,000) | 45,000 | 45,000 |

| | June 30, 2016 | Increases | Payments and reductions | June 30, 2017 | Current portion |
|---|---|---|---|---|---|
| 3.820%, due 2019 – CI#2009A | $ 1,670,000 | — | (540,000) | 1,130,000 | 555,000 |
| 5.330%, due 2019 – CI#2009B | 6,600,000 | — | (5,920,000) | 680,000 | 330,000 |
| 3.609%, due 2019 – CI#2009C1 | 8,405,000 | — | (7,240,000) | 1,165,000 | 570,000 |
| 3.609%, due 2019 – CI#2009C2 | 765,000 | — | (765,000) | — | — |
| 3.609%, due 2019 – CI#2009C3 | 765,000 | — | (765,000) | — | — |
| 5.912%, due 2019 – CI#2009D | 3,690,000 | — | (3,300,000) | 390,000 | 190,000 |
| 3.77%, due 2031 – CI#2011A | 860,000 | — | (40,000) | 820,000 | 40,000 |
| 3.73%, due 2031 – CI#2011B | 855,000 | — | (40,000) | 815,000 | 40,000 |
| 5.00%, due 2032 – CI#2012A1 | 1,815,000 | — | (70,000) | 1,745,000 | 75,000 |
| 5.00%, due 2032 – CI#2012A2 | 1,585,000 | — | (60,000) | 1,525,000 | 65,000 |
| 6.00%, due 2032 – CI#2012B | 1,145,000 | — | (40,000) | 1,105,000 | 45,000 |
| 6.30%, due 2033 – CI#2013B | 1,960,714 | — | — | 1,960,714 | — |
| 2.78%, due 2034 – CI#2014 | 2,850,000 | — | (150,000) | 2,700,000 | 150,000 |
| 5.0%, due 2035 - CI#2015A | 3,000,000 | — | (85,000) | 2,915,000 | 95,000 |
| 4.82%, due 2029 - CI#2016A | 10,235,000 | — | (90,000) | 10,145,000 | 230,000 |
| 4.62% due 2037 CI#2016B | — | 3,000,000 | — | 3,000,000 | 90,000 |
| 4.03% due 2030 CI#2016C | — | 7,785,000 | — | 7,785,000 | — |
| 2.76% due 2030 CI#2016D | — | 9,680,000 | — | 9,680,000 | 155,000 |
| Total general obligation bonds | 46,375,714 | 20,465,000 | (19,235,000) | 47,605,714 | 2,675,000 |

| | June 30, 2016 | Increases | Payments and reductions | June 30, 2017 | Current portion |
|---|---|---|---|---|---|
| Adjustments: | | | | | |
| Add unamortized premium | $ 2,535,360 | 941,855 | (38,832) | 3,438,383 | — |
| Deduct unamortized discount | (30,438) | (807,646) | 29,580 | (808,504) | — |
| Total general obligation debt | 48,880,636 | 20,599,209 | (19,244,252) | 50,235,593 | 2,675,000 |
| Total long-term debt | $ 77,948,032 | 20,599,209 | (20,717,945) | 77,829,296 | 4,150,000 |
| Other noncurrent liabilities | $ 6,496,596 | — | (72,832) | 6,423,764 | — |

| | June 30, 2015 | Increases | Payments and reductions | June 30, 2016 | Current portion |
|---|---|---|---|---|---|
| Outstanding debt: | | | | | |
| Electric System Revenue Bonds: | | | | | |
| 5.24% 2011 Series A, due 2031 | $ 8,775,000 | — | (345,000) | 8,430,000 | 360,000 |
| 8.11% 2011 Series B, due 2031 | 3,135,000 | — | (95,000) | 3,040,000 | 100,000 |
| 3.78% 2014 Series A, due 2035 | 12,000,000 | — | (435,000) | 11,565,000 | 445,000 |
| 3.36% 2014 Series B, due 2035 | 5,820,000 | — | (510,000) | 5,310,000 | 525,000 |
| Total revenue bonds | 29,730,000 | — | (1,385,000) | 28,345,000 | 1,430,000 |
| Adjustments: | | | | | |
| Add unamortized premium | 764,822 | — | (42,426) | 722,396 | — |
| Total revenue debt of the department | 30,494,822 | — | (1,427,426) | 29,067,396 | 1,430,000 |
| General obligation debt, repayable from the departments Resources: | | | | | |
| 3.351%, due 2017 – CI #32 | 80,000 | — | (40,000) | 40,000 | 40,000 |
| 3.893%, due 2025 – CI #33 | 655,000 | — | (655,000) | — | — |
| 3.845%, due 2025 – CI #34 | 655,000 | — | (655,000) | — | — |
| 3.943%, due 2017 – CI#2006A | 695,000 | — | (650,000) | 45,000 | 45,000 |

| | June 30, 2015 | Increases | Payments and reductions | June 30, 2016 | Current portion |
|---|---|---|---|---|---|
| 3.750%, due 2018 – CI#2007A | $ 740,000 | — | (650,000) | 90,000 | 45,000 |
| 3.820%, due 2019 – CI#2009A | 10,270,000 | — | (8,600,000) | 1,670,000 | 540,000 |
| 5.330%, due 2019 – CI#2009B | 6,900,000 | — | (300,000) | 6,600,000 | 315,000 |
| 3.609%, due 2019 – CI#2009C1 | 8,870,000 | — | (465,000) | 8,405,000 | 470,000 |
| 3.609%, due 2019 – CI#2009C2 | 805,000 | — | (40,000) | 765,000 | 45,000 |
| 3.609%, due 2019 – CI#2009C3 | 805,000 | — | (40,000) | 765,000 | 45,000 |
| 5.912%, due 2019 – CI#2009D | 3,865,000 | — | (175,000) | 3,690,000 | 180,000 |
| 3.77%, due 2031 – CI#2011A | 900,000 | — | (40,000) | 860,000 | 40,000 |
| 3.73%, due 2031 – CI#2011B | 895,000 | — | (40,000) | 855,000 | 40,000 |
| 5.00%, due 2032 – CI#2012A1 | 1,885,000 | — | (70,000) | 1,815,000 | 70,000 |
| 5.00%, due 2032 – CI#2012A2 | 1,645,000 | — | (60,000) | 1,585,000 | 60,000 |
| 6.00%, due 2032 – CI#2012B | 1,185,000 | — | (40,000) | 1,145,000 | 40,000 |
| 6.30%, due 2033 – CI#2013B | 2,920,714 | — | (960,000) | 1,960,714 | — |
| 2.78%, due 2034 – CI#2014 | 3,000,000 | | (150,000) | 2,850,000 | 150,000 |
| 5.0%, due 2035 - CI#2015A | — | 3,000,000 | — | 3,000,000 | 85,000 |
| 4.82%, due 2029 - CI#2016A | — | 10,235,000 | — | 10,235,000 | 90,000 |
| Total general obligation bonds | 46,770,714 | 13,235,000 | (13,630,000) | 46,375,714 | 2,300,000 |
| Adjustments: | | | | | |
| Add unamortized premium | 431,414 | 2,206,093 | (102,147) | 2,535,360 | — |
| Deduct unamortized discount | (31,914) | — | 1,476 | (30,438) | — |
| Total general obligation debt | 47,170,214 | 15,441,093 | (13,730,671) | 48,880,636 | 2,300,000 |
| Total long-term debt | $ 77,665,036 | 15,441,093 | (15,158,097) | 77,948,032 | 3,730,000 |
| Other noncurrent liabilities | $ 6,984,213 | — | (487,617) | 6,496,596 | — |

The Electric System Revenue Bonds have been issued pursuant to the General Bond Resolution and are collateralized by a pledge of the Department’s operating revenues. Pursuant to the General Bond Resolution, revenues (as defined) means all rates, fees, charges or other income and includes rentals, proceeds of insurance or condemnation or other disposition of assets, proceeds of bonds or notes and earnings from the investment of revenues. On an annual basis, revenues must be sufficient after deducting operating expenses (as defined) to meet minimum debt service coverage requirements (as defined). If minimum debt service coverage requirements are not met, the Department must take timely corrective action. For the years ended June 30, 2017 and 2016, the Department met its debt service coverage requirements.

The Department has pledged future revenues, net of specified operating expenses, to repay the principal and interest on its Electric System Revenue Bonds issued in 2011 and 2014. The bonds are payable solely from revenues as defined and are payable through 2035. Annual principal and interest payments on the bonds are expected to require less than 50% of net revenues. The total principal and interest remaining to be paid on the bonds is $37,665,963 and $40,332,200 at June 30, 2017 and 2016, respectively. During 2017 and 2016, principal and interest paid, and net revenues available for debt service, were $2,666,238 and $14,012,795 and $2,665,287 and $13,789,612, respectively.

The general obligation bonds were issued to finance electric system improvements and are collateralized by the general revenue-raising power of the City of Burlington. Pursuant to the terms of a General Bond Resolution adopted by the City of Burlington on October 7, 1981 (the General Bond Resolution), the claim on the revenues of the Department by the holders of revenue bonds under the General Bond Resolution is prior to any claim of the holders of general obligation bonds.

During the fiscal year ended June 30, 2017, the Department, through the City of Burlington, issued $3,000,000 in general obligation bonds, 2016 Series B, with an average coupon rate of 4.62%. These bonds were issued in accordance with the City Charter to cover annual capital improvements to the electric infrastructure of the Department for use during fiscal year 2017.

During the fiscal year ended June 30, 2017, the Department, through the City of Burlington, issued two General Obligation Refunding Bonds, 2016 Series C and 2016 Series D. The Department’s share of the 2016 Series C refunding was $7,785,000, the proceeds of which were used to refund 2009 Series C1 ($6,770,000), 2009 Series C2 ($720,000) and 2009 Series C3 ($720,000). The 2016 Series C were issued with an average coupon rate of 4.03% and will mature in November, 2029. The Department’s share of the 2016 Series D refunding was $9,680,000, the proceeds of which were used to refund 2009 Series B ($5,605,000) and 2009 Series D ($3,120,000). The 2016 Series D were issued with an average coupon rate of 2.76% and will mature in November, 2029. The Department is expecting a net savings on the 2016 Series C financing of $82,530 while also anticipating a net savings on the 2016 Series D financing of $877,462.

During the fiscal year ending June 30, 2016, the Department, through the City of Burlington, issued $3,000,000 in general obligation bonds, 2015 Series A, with an average coupon rate of 5.0%. These bonds were issued for use during fiscal year 2016 in accordance with the City Charter to cover annual capital improvements to the electric infrastructure of the Department.

In April of 2016, the City issued $16,435,000 in General Obligation Refunding Bonds Series 2016A on behalf of the Department and others. The Department's share of this advance refunding amounted to $10,235,000 of 2016 Series A bonds, the proceeds of which were used to refund Series 2005A and 2005B ($1,210,000), and advance refund portions of Series 2006A ($605,000), 2007A ($605,000), 2009A ($8,075,000) and Series 2013B ($792,857). These 2016 Series A were issued with an average coupon rate of 4.82% and will mature in November 2029. The Department's share of deferred losses on advance refunding for the 2016 Series A was $485,634, with the Department expecting to realize a $618,232 net savings on refinancing.

Annual debt service requirements exclusive of unamortized premium or discount are as follows:

| | | Revenue debt | | General obligation debt | | |
|---|---|---|---|---|---|---|
| | | **Principal** | **Interest** | **Principal** | **Interest** | **Total** |
| Year ending June 30: | | | | | | |
| 2018 | $ | 1,475,000 | 1,187,519 | 2,675,000 | 1,882,842 | 7,220,361 |
| 2019 | | 1,520,000 | 1,134,457 | 2,785,000 | 1,789,953 | 7,229,410 |
| 2020 | | 1,585,000 | 1,076,782 | 2,785,000 | 1,699,206 | 7,145,988 |
| 2021 | | 1,650,000 | 1,016,432 | 2,845,000 | 1,613,607 | 7,125,039 |
| 2022–2026 | | 8,615,000 | 3,995,401 | 16,037,143 | 6,380,940 | 35,028,484 |
| 2027–2031 | | 7,825,000 | 2,046,316 | 15,998,571 | 2,683,320 | 28,553,207 |
| 2032–2037 | | 4,245,000 | 294,056 | 4,480,000 | 465,104 | 9,484,160 |
| | $ | 26,915,000 | 10,750,963 | 47,605,714 | 16,514,972 | 101,786,649 |

## (6) Short Term Debt – Line of Credit

In February 2012, the City issued on behalf of the Department, a $5,000,000 General Obligation Revenue Anticipation Note (Line of Credit) with a local bank, placing the Line of Credit directly with the Department. On May 25, 2017, this Line of Credit was renewed for a two year term to May 18, 2019. The Department had the entire Line of Credit balance of $5,000,000 available for use during fiscal years 2017 and 2016, respectively.

## (7) Production Expenses

Production expenses are comprised of the following:

| | | Year ended June 30 | |
|---|---|---|---|
| | | **2017** | **2016** |
| McNeil station: | | | |
| Fuel | $ | 7,838,297 | 10,652,615 |
| Operations | | 1,657,801 | 1,636,073 |
| Maintenance | | 909,631 | 1,049,442 |
| | | 10,405,729 | 13,338,130 |

| | | Year ended June 30 | |
|---|---|---|---|
| | | **2017** | **2016** |
| Winooski One Hydro station: | | | |
| Operations | $ | 222,568 | 241,578 |
| Maintenance | | 219,897 | 241,786 |
| | | 442,465 | 483,364 |
| Gas turbine | | | |
| Fuel | | 143,335 | 156,986 |
| Operations | | 30,686 | 31,489 |
| Maintenance | | 102,859 | 140,963 |
| | | 276,880 | 329,438 |
| Solar: | | | |
| Operations | | 19,254 | 26,152 |
| Total production expenses | $ | 11,144,328 | 14,177,084 |

## (8) Retirement Benefits

The City maintains a single employer defined benefit pension plan and a deferred compensation retirement plan. The Department contributes to the defined benefit plan, the allocated required contribution as set forth by the City's actuary for its employees, together with a direct employee contribution of 4% (nonunion) and 4% or 5% (IBEW, depending on choice of plan) of gross wages. For the years ended June 30, 2017 and 2016, the Department made 100% of its required contributions which totaled $1,507,596 and $1,643,195, respectively. The Department, in addition to making 100% of its required contribution in 2017, paid an Administrative Fee of $36,554. Participation in the deferred compensation plan is strictly voluntary, with no matching contribution from the Department.

### *(a) Defined Benefit Plan*

All full-time employees of the Department participate in the City of Burlington Employees' Retirement System (BERS Plan). The City's plan covers substantially all of its employees except elected officials, other than the mayor, and the majority of the public school teachers, who are eligible for the Vermont Teachers' Retirement System.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the BERS Plan and additions to/deductions from BERS Plan's fiduciary net position have been determined on the same basis as they are reported by the BERS Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The Financial Statement for the BERS Plan are available from the City of Burlington, Burlington Vermont 05401.

*(i) Summary of BERS Plan*

Effective March 2016, all eligible Department union employees vest 100% after 5 years of creditable service. Current employees partially vested shall remain partially vested until the completion of five years of creditable service. Department employees who retire at 65 are entitled to a retirement benefit.

For employees hired prior to July 1, 2006: Age 65 and older, the retirement benefit is the greater of (i) 1.6% of average final compensation (AFC)(at age 65) times creditable service not in excess of 25 years plus 0.5% of AFC (at age 65) times creditable service in excess of 25 years or (ii) the actuarial equivalent of the benefit determined at age 65. This benefit will be increased by the Cost of Living Adjustment detailed below.

For employees hired after July 1, 2006: Age 65 and older, the retirement benefit is the greater of (i) 1.4% of AFC (at age 65) times creditable service not in excess of 25 years plus 0.5% of AFC (at age 65) times creditable service in excess of 25 years or (ii) the actuarial equivalent of the benefit determined at age 65. This benefit will be increased by the cost of living adjustment detailed below.

In lieu of this benefit, at the time of retirement, a member may choose (i) an accrual rate of 1.9% for all years of service prior to June 30, 2006 for the first 25 years, an accrual rate of 1.8% for all years of service commencing July 1, 2006 for the first 25 years, plus an accrual of 0.5% for creditable service in excess of 25 years, and a cost of living adjustment equal to one-half of the cost of living adjustment detailed below, or (ii) an accrual rate of 2.2% for all years of service prior to June 30, 2006 for the first 25 years, an accrual rate of 2.0% for all years of service commencing July 1, 2006 for the first 25 years, plus and accrual of 0.5% for creditable service in excess of 25 years, with no cost of living adjustment.

Except for employees detailed below, the above benefit based on AFC and creditable service at retirement is reduced by 2% for each year that retirement is between ages 60 and 64. For IBEW employees hired before May 1, 2008, who elect an additional contribution rate of 1% a reduction factor is applied of 2% for each year the retirement precedes age 65. For IBEW employees hired before May 1, 2008, who do not elect an additional contribution rate of 1% the benefit is reduced by a factor which varies with age: factor of 1 at age 65 and a factor of 0.4 at age 55.

For IBEW employees hired after May 1, 2008, the benefit is reduced by a factor which varies by age: factor of 1 at age 65 and a factor of 0.356 at age 55.



(Continued)

*(ii) Cost of Living Adjustment*

Benefits increase annually by changes in the Consumer Price Index of more than 1%, to a maximum of 6%. This increase is not applicable to deferred vested benefit prior to commencement, survivor income benefit, disability benefit prior to normal retirement age or participants who choose to have no cost of living adjustment.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

The BERS Plan's net pension liability was measured as of June 30, 2016 (Measurement Date). As of the Measurement Date, BERS Plan reported a net pension liability of $89,153,906. The plan fiduciary net position as a percentage of the total pension liability is 63.75%.

As of June 30, 2017 and 2016 (reporting date), the Department reported a liability of $16,198,638 and $12,674,005, respectively, for its allocated proportionate share of the City's net pension liability. The Department's allocated proportion of the net pension liability was based on a projection of the Department's long-term share of contributions to the BERS Plan relative to the projected contributions of the City. At the Measurement Date, the Department's allocated proportion was 18.17% as compared to 18.59% for the prior period.

For the years ended June 30, 2017 and 2016, the Department recognized pension expense of $2,648,266 and $1,459,348, respectively. At June 30, 2017 and 2016, the Department reported its allocated proportionate share of deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | 2017 | |
|---|---|---|
| | **Deferred outflows of resources** | **Deferred inflows of resources** |
| Deferred outflow pension – | | |
| Payment after the Measurement Date | $ 1,662,338 | — |
| Difference between actual and projected experience | 1,324,375 | — |
| Difference between actual and projected investment earnings | 3,069,531 | |
| Deferred change in proportion | 325,376 | — |
| Deferred inflow pension (distribution and change in proportion) | — | 276,687 |
| | $ 6,381,620 | 276,687 |

| | 2016 | |
|---|---|---|
| | **Deferred outflows of resources** | **Deferred inflows of resources** |
| Deferred outflow pension – | | |
| Payment after the Measurement Date | $ 1,643,195 | — |
| Difference between actual and projected experience | 601,333 | — |
| Difference between actual and projected investment earnings | 1,130,879 | — |
| Deferred change in proportion | 488,064 | — |
| Deferred inflow pension (distribution and change in proportion) | — | 179,055 |
| | $ 3,863,471 | 179,055 |

Other amounts reported as deferred outflows of resources and deferred inflows of resources excluding payments made after the measurement date related to pensions will be recognized in pension expense as follows:

| | |
|---|---|
| Year ended June 30: | |
| 2018 | $ 1,262,745 |
| 2019 | 1,352,272 |
| 2020 | 1,285,605 |
| 2021 | 541,973 |
| Total | $ 4,442,595 |

*(iii)* *Actuarial Assumptions*

| | |
|---|---|
| Valuation date | 6/30/2016 |
| Mortality table | RP 2000, scale BB |
| Inflation | 3.0% |
| Salary increases | 3.0% average, including inflation. |



(Continued)

| | |
|---|---|
| Investment rate of return | Best estimate of geometric real rates of return for each major asset class included in the target allocation as of June 30, 2016. |

| | Target allocation | Long-term expected real rate of return |
|---|---|---|
| Asset class: | | |
| US large cap | 30.09 % | 7.16 % |
| US mid cap | 8.99 | 9.04 |
| US small cap | 8.99 | 9.03 |
| MSCI EAFE | 9.31 | 5.61 |
| MSCI emerging markets | 10.40 | 8.22 |
| Intermediate government credit | 27.74 | 1.72 |
| Real estate | 2.08 | 6.63 |
| Private equity | 1.56 | 8.31 |
| Cash | 0.84 | 0.86 |

| | |
|---|---|
| Discount rate | 8.0%, based on current funding policy |

The projection of cash flows used to determine the discount rate assumed that contributions will continue to be made in accordance with the current funding policy. Based on those assumptions, the BERS Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Department's proportionate share of the net pension liability to changes in the discount rate*. The following presents the Department's proportionate share of the net pension liability calculated using the current discount rate of 8.0%, as well as what the Department's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.0%) or 1-percentage-point higher (9.0%) than the current rate:

| | 1% Decrease (7%) | Current discount rate (8%) | 1% Increase (9%) |
|---|---|---|---|
| Department's proportionate share of the net pension liability | $ 21,499,332 | 16,198,638 | 11,768,711 |

### *(b) Deferred Compensation Plan*

The Department offers its employees a deferred compensation plan administered through the City, in accordance with Section 457 of the Internal Revenue Code (IRC). The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or for “unforeseeable emergency” as defined by IRS guidelines. The assets of the plan are not included in the accompanying financial statements.

## (9) Other Post-Employment Benefits (OPEB)

The City has recorded a liability for the government activities in the government-wide financial statements and in the individual enterprise funds and for the business-type activities in the government-wide financial statements which represent the actuarial determined costs for post-employment benefits. These costs relate to subsidized health care and life insurance for retirees during the period from retirement to the date of eligibility for social security benefits.

Post-employment benefits and Compensated Absences (below) are paid for by the applicable fund where the employee is charged.

At June 30, 2017 and 2016, the Department reported a liability of $261,213 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2015, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Department’s proportion of the net OPEB liability was based on a projection of the Department’s long-term share of contributions to the OPEB plan relative to the actuarial projected contribution of the total plan. As of the measurement date, the Department’s proportion was 17.07%.

## (10) Compensated Employee Absences

Vested vacation, accrued holidays, and nonexempt compensatory time are recorded under other noncurrent liabilities. Employees earn vacation leave based upon length of employment up to a maximum of 200 hours per year, but may accumulate no more than a maximum of 360 hours.

Employees also accrue sick leave credits based upon length of employment up to 144 hours per year. The Department has accrued a liability for a portion of accrued sick leave for eligible employees. At retirement, union employees can convert unused sick leave 2:1 up to 240 hours to 120 hours of pay. This conversion may not bring the sick leave balance below 240 hours. Nonunion employees upon retirement can convert one-third (1/3) the number of days of accumulated unused sick leave up to maximum payment of four (4) weeks or, upon resignation, can convert one-fourth (1/4) the number of days of accumulated unused sick leave up to a maximum payment of three (3) weeks.

At June 30, 2017 and 2016, the Department has reported accrued compensated employee absences of $606,260 and $975,386, respectively, in other noncurrent liabilities.


(Continued)

## (11) Commitments and Contingencies

(a) The Department receives output from generation of the McNeil Station (of which the Department is the 50% owner and operator), the Burlington Gas Turbine, the Winooski One hydro facility, the Airport Solar array, and the Pine Street Solar array. Except for the McNeil station, the Department owns 100% of the remaining resources and is responsible for their operation.

(b) In addition to energy provided by its owned generation, the Department purchases a portion of its electricity requirements pursuant to long-term (greater than one year in duration) contracts. During the fiscal years ended June 30, 2017 and 2016, long-term sources of purchased power included:

1. New York Power Authority (NYPA) power from hydro stations on the Niagara and St. Lawrence rivers under contracts through September 1, 2025 (Niagara) and through April 30, 2017 (St. Lawrence). Renewal discussions for the St. Lawrence rivers contract are underway.

2. Vermont Electric Power Producers, Inc. (VEPPI) which is agent for 11 hydro facilities located within Vermont (contracts expire between 2016 and 2020).

3. Deliveries pursuant to a ten year contract with Vermont Wind commenced in September 2011 (for test energy), with the official ten year contract start date being October 19, 2011 when commercial energy production began. Under the contract, the Department receives 16 MW (40%) of Vermont Wind's wind farm in northeast Vermont (Sheffield). BED's 16 MW entitlement is expected to provide approximately 9.5% of BED's annual energy requirements.

4. The Department purchases energy from the Georgia Mountain Community Wind (GMCW) project with commercial operation on December 31, 2012. Pursuant to a 25 year contract, the Department receives 10MW (100%) entitlement from Georgia Mountain's wind farm in Milton/Georgia, Vermont. GMCW is expected to produce energy sufficient to meet 9.2% of BED's energy needs.

5. Deliveries pursuant to a ten year contract with Hancock Wind began in December, 2016. Before reaching commercial operation, the Department received test energy for the month of November and partial month of December. Under the contract, the Department will receive 13.5 MW (26.5%) of Hancock's wind farm.

6. Long term purchases from a number of small in-state resources under a state mandated feed-in tariff program (called Standard Offer resources). Effective January 1, 2017, BED was exempted from purchasing energy from these high-priced resources (in recognition of its 100% renewable energy purchases). BED expects this exemption to continue through at least 2018.

7. Purchase of the output from 6 small in-city solar projects under long term agreements.

8. BED is purchasing energy and RECs from Nextera for a five year period beginning January 1, 2013. For calendar year 2013 and 2014, hourly energy was 10 MW, for the final three years (calendar 2015-2017) the volume is 5 MW per hour. The delivered energy is unit contingent on a portfolio of hydro facilities, and includes RECs from those units equal in volume to the energy purchased.

9. The Burlington City Council, the Vermont Public Service Board, and the voters of Burlington have approved a 23 year energy-only contract with Hydro-Quebec. The contract has been executed and deliveries began (for BED) in November 2015. Under the contract, the Department will receive 5 MW of contract energy for the period November 1, 2015 to October 31, 2020 and a second (additional) 4 MW of contract energy for the period November 1, 2020 to October 31, 2038. BED's entitlement is expected to provide approximately 6%-15% of BED's annual energy requirements depending on whether one, or both, contract entitlements are flowing in a particular year.

10. In 2013, BED entered a long term power agreement to purchase the output of a proposed 2.5 MW solar generating facility to be located in Burlington (South Forty Solar). On September 7, 2017, BED was notified that all pre-construction conditions had been met and that construction would be commencing.

Payments under these long-term power supply contracts were $14,495,724 and $12,632,234 for the years ended June 30, 2017 and 2016, respectively, with the increase from 2016 being largely due to a new wind contract with Hancock Wind. Budgeted commitments under these long-term contracts and long-term contracts approved and executed for future delivery periods total approximately $71,700,219 for the 5 year period from July 1, 2017 to June 30, 2022.

| Fiscal year | | Budgeted commitment |
|---|---|---|
| 2018 | $ | 14,056,042 |
| 2019 | | 13,820,631 |
| 2020 | | 15,034,772 |
| 2021 | | 16,119,018 |
| 2022 | | 12,669,756 |
| | $ | 71,700,219 |

The remainder of the Department's energy requirement is satisfied through short-term purchases including:

1. Short-term purchases from a number of market counterparties if necessary.
2. Net exchange of energy through the Independent System Operator – New England power markets.

The costs of power purchased under these contracts are accounted for as purchased power expenses in the statements of revenues, expenses, and changes in net assets. The percentages of the Department's total energy requirements were provided as follows:

| | **2017** | **2016** |
|---|---|---|
| McNeil Generation Station and Gas Turbine | 39 % | 44 % |
| Winooski One | 8 | 8 |
| New York Power Authority | 5 | 4 |
| Vermont Electric Power Producers | 2 | 2 |
| Standard Offer | 1 | 2 |
| Wind Production | 25 | 19 |
| Hydro-Quebec | 8 | 8 |
| Nextera | 12 | 13 |
| | 100 % | 100 % |

Note that the Department sells Renewable Energy Credits (RECs) associated with much of the above generation and the above table should not be considered a representation of the Department's renewability.